



[Docket No. FR-6342-N-01]

Request for Information Regarding Small Mortgage Lending

AGENCY: Office of the Assistant Secretary for Housing—Federal Housing Commissioner, Department of Housing and Urban Development, HUD.

ACTION: Request for information.

SUMMARY: In its 2022-2026 Strategic Plan, the Department established strategic goals to “Support Underserved Communities” and to “Promote Homeownership.” Among the goal of supporting underserved communities is to advance housing justice and proactively strengthen and protect vulnerable and underserved communities. Through this Request for Information (RFI), the Federal Housing Administration (FHA) seeks public input regarding barriers to the origination of small mortgages in the FHA program. Information provided in response to this RFI will allow FHA to identify barriers to the origination of small mortgages in the FHA program and consider the development of policies and programs that better support and expand affordable homeownership opportunities in underserved markets with lower housing prices.

DATES: Comments are requested on or before **[INSERT DATE SIXTY DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER.]** Late-filed comments will be considered to the extent practicable.

ADDRESSES: Interested persons are invited to submit comments responsive to this RFI. All submissions must refer to the docket number and title of the RFI. Commenters are encouraged to identify the number of the specific question or questions to which they are responding. Responses should include the name(s) of the person(s) or organization(s) filing the comment; however, because any responses received by HUD will be publicly available, responses should not include any personally identifiable information or confidential commercial information.

There are two methods for submitting public comments.

1. Electronic Submission of Comments. Interested persons may submit comments electronically through the Federal eRulemaking Portal at <http://www.regulations.gov>.
2. Submission of Comments by Mail. Comments may be submitted by mail to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street SW, Room 10276, Washington, DC 20410-0500.

HUD strongly encourages commenters to submit their feedback and recommendations electronically. Electronic submission of comments allows the commenter maximum time to prepare and submit a response, ensures timely receipt by HUD, and enables HUD to make comments immediately available to the public. Comments submitted electronically through the <http://www.regulations.gov> website can be viewed by other commenters and interested members of the public. Commenters should follow the instructions provided on that site to submit comments electronically.

Note: To receive consideration as public comments, comments must be submitted through one of the two methods specified above. Again, all submissions must refer to the docket number and title of the notice.

Public Inspection of Public Comments. All comments and communications properly submitted to HUD will be available for public inspection and copying between 8 a.m. and 5 p.m. weekdays at the above address. Due to security measures at the HUD Headquarters building, an advance appointment to review the public comments must be scheduled by calling the Regulations Division at (202) 708-3055 (this is not a toll-free number). Individuals can dial 7-1-1 to access the Telecommunications Relay Service (TRS), which permits users to make text-based calls, including Text Telephone (TTY) and Speech to Speech (STS) calls. Copies of all comments submitted are available for inspection and downloading at <http://www.regulations.gov>.

FOR FURTHER INFORMATION CONTACT: Kevin Stevens, Acting Director, Office of Single Family Program Development, Department of Housing and Urban Development, 451 7th

Street SW, Room 9266, Washington, DC 20410-0500; telephone number 202-402-4317 (this is not a toll-free number). Individuals can dial 7-1-1 to access the Telecommunications Relay Service (TRS), which permits users to make text-based calls, including Text Telephone (TTY) and Speech to Speech (STS) calls.

SUPPLEMENTARY INFORMATION:

I. Background

HUD's 2022-2026 Strategic Plan,¹ released in March 2022, established strategic goals to "Support Underserved Communities" and to "Promote Homeownership." Among the objectives of supporting underserved communities is to "Advance Housing Justice," which includes expanding the Department's role in proactively strengthening and protecting vulnerable and underserved communities. Borrowers often experience difficulty finding affordable options to finance the purchase or refinance of properties below certain price thresholds, especially in areas where home values are low. FHA's mission is to provide mortgage financing options for low- to moderate-income borrowers who are not well served by the private mortgage market, including those seeking small mortgage. HUD understands that a primary barrier to small mortgage lending is the costs to originate and service small mortgages in relation to the limited potential compensation afforded by these loans. Therefore, lenders do not find it economically feasible to originate mortgages with low principal balances. This lack of financing availability for mortgages with low principal balances creates a significant barrier to affordable homeownership for underserved households, particularly in certain geographic areas.

Under Title II of the National Housing Act (NHA),² FHA insures loans made by FHA-approved mortgagees for the purchase or refinance of 1-4 family residences, including individual condominium units and manufactured homes classified as real estate. FHA insures mortgages to

¹ U.S. DEPT OF HOUSING AND URBAN DEVELOPMENT, FISCAL YEAR 2022-2026 STRATEGIC PLAN (2022), available at <https://www.hud.gov/sites/dfiles/CFO/documents/FY2022-2026HUDStrategicPlan.pdf>.

² 12 U.S.C. 1707 et seq.

increase the availability of affordable home financing options for low- and moderate-income borrowers by protecting mortgagees and lenders against the risk of default.

The Title II program provides limits on the maximum loan amounts but does not contain limitations on a minimum loan amount. Additionally, FHA's regulation at 24 CFR 203.18d prohibits lenders from establishing a minimum principal loan amount under FHA's Title II program.

The House of Representatives Committee Report, 116–452, accompanying the U.S. Departments of Transportation, Housing and Urban Development, and Related Agencies Appropriations Bill, 2021³ directed HUD to submit a review of its FHA single-family mortgage insurance policies, practices, and products to identify any barriers or impediments to supporting, facilitating, and making available mortgage insurance for mortgages having an original principal obligation of \$70,000 or less. In response, HUD is issuing a report concurrently with this RFI that outlines FHA's role in the small mortgage lending market and identifies certain potential impediments to small mortgage lending.

II. Purpose of this Request for Information

The purpose of this RFI is to solicit information regarding barriers to originating small mortgage lending in the FHA program and obtain feedback on ways to improve FHA policies and programs that support affordable homeownership opportunities in underserved markets with lower housing prices.

III. Specific Information Requested

While FHA welcomes all comments relevant to expanding small mortgage lending in the FHA mortgage insurance program, FHA is particularly interested in receiving input from interested parties on the questions outlined below.

³ Available at <https://www.congress.gov/congressional-report/116th-congress/house-report/452>.

1. Communities have reported a lack of available financing for small balance mortgage loans in some areas. Have you observed this to be true and is there a particular mortgage loan amount below which the problem is most acute?
2. What housing supply market conditions and purchasing characteristics affect the availability of and demand for small mortgages?
3. What information can you provide regarding the ways in which the FHA program serves or does not serve borrowers seeking small mortgages?
4. What barriers (e.g., origination and servicing costs, compensation, disincentives) exist for mortgage lenders and other industry participants in facilitating transactions that include the origination or servicing of small mortgages in the FHA program?
5. What technology solutions could improve the availability of small mortgages in the FHA program?
6. What changes to policies, regulations, features, or processes of the current FHA program would encourage mortgagees to do more lending for small mortgages in the FHA program?
7. What policies, regulations, features, or processes outside of FHA/HUD impact the availability of small mortgages in the FHA program?
8. What, if any, state and local requirements affect the availability of small mortgages in the FHA program?
9. What consumer protections are unique to small mortgages that should be considered in the FHA program?
10. What issues should be considered relating to provision of liquidity for small mortgage lending through securitization?
11. Offer any additional comments on the role that FHA programs could play in improving the supply of small mortgages.

Julia R. Gordon,

Assistant Secretary for Housing—Federal Housing Commissioner.

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